Harbor Freight CEO accused by parents of 'looting' company

By Stephanie Hoops

When he founded Harbor Freight Tools four decades ago, it's unlikely Allan Smidt expected it would end like it did this spring, when his own son had an executive walk him out the door and lock him out of the building.

It was the culmination of almost 15 years of growing friction between father and son. Last week Smidt, 81, and his 76-year-old wife, Dorothy, struck back in the increasingly acrimonious family feud and sued their 50-year-old son Eric L. Smidt, CEO of the Camarillo-based tool retailer and importer.

The couple accuse their son of "looting" the company to buy such things as a $20 million Manhattan apartment and a single painting for $100 million.

The lawsuit, filed last week in state court in Los Angeles County, alleges their son used his relationship with his parents to cajole them into giving up control of the family business and subsequently enriched himself to the company's detriment.

It's the first detailed account of the internal workings of the privately held company that has cleared away its senior management and begun a move to new offices in Calabasas, amid online chatter that employee morale has reached an unprecedented low.

The company responded to the lawsuit Monday in a statement put out by its marketing head, John Batten: "Family disagreements are never pleasant, but this lawsuit is incredibly sad. The assertions in the complaint are completely unfounded and they will be addressed in due course. None of this will affect the business or continued success of Harbor Freight Tools."

Harbor Freight is one of Camarillo's largest employers with 1,000 employees in the county and 7,400 nationwide. Allan Smidt started the company in 1968, when Eric was an 8-year-old. He began working for the business as a teenager and as time went on was given more responsibility, according to the lawsuit.

Allan Smidt says his son began pressuring him for a controlling interest in the business as far back as 1996. The suit alleges Eric Smidt reassured his father that if he transferred ownership to him, "nothing would change, that Allan would continue to guide the company and have the final say over major corporate decisions consistent with his prior practice, and that the two of them would continue to run the business together in their special relationship of father-son."

Allan Smidt claims he relied on his son's representations and made the transfer in 1999, after which "Eric dramatically leveraged the company."

The complaint states Eric Smidt took out more than $500 million in loans to acquire property such as The Knoll, the former Beverly Hills estate of the late billionaire Marvin Davis. Eric Smidt paid a reported $46 million for the Georgian-style estate, which was on Forbes.com's list of the most expensive homes In America in 2004. The 13-bedroom, 12-bath mansion also once belonged to country-singer Kenny Rogers. It has 25,000 square feet of living space, two pools, a tennis court, two guest houses, a screening room and two wine cellars.

Allan Smidt objected to some of the leveraging, according to the complaint, and in an effort to work out the dispute, Eric Smidt allegedly agreed to pay his father $2.5 million per year for his continued service to the company for the remainder of his life. But Allan Smidt claims Eric failed to make the past two payments, saying "the company was going through bad times and the payments could not be made."

"Eric's looting of the company substantially contributed to any such ?bad times,' " the complaint alleges, adding that the leveraging has had serious negative consequences, "including inability to keep inventory on the shelves."

Tensions between father and son reached a fever pitch toward the end of last year and into the start of this one, according to the allegations. Eric Smidt fired a number of longtime executives and managers who'd helped his father build the company. The firings angered Allan Smidt, who made his opposition known vocally and in writing.

Then in April, Allan Smidt approached the company's outside legal counsel, raising concerns about decisions he said were being made without the board of directors' authority, including the firings.

About a week later Allan Smidt learned his son had removed him as a director of Harbor Freight.

On May 17, Allan Smidt claims he stopped by his office and attempted to log in to his computer but couldn't. He contacted the company's information technology office for help, but was referred to Robert W. Rene, the company's new chief operating officer. When Rene arrived, the two men argued and Rene proceeded to walk Allan out of the building, the complaint states. There, in front of another employee, Rene is alleged to have said: "Don't come back."

About a week later, Pete Roberts, vice president of human resources, told The Star the company had decided to relocate to Calabasas in August or September because of strong growth. Company representatives did not mention the elimination of any senior managers, but said more than 600 jobs had been added nationally in the past year, including 140 in Ventura County.

"As a result, our Camarillo and Oxnard offices aren't large enough, so we added office space in Calabasas," Roberts said.

The lawsuit seeks unspecified actual and punitive damages and an injunction for allegations of fraud, breach of trust, undue influence, negligent misrepresentation, misappropriation of assets, breach of contract and elder abuse.